PIMCO

PIMCO Quarterly Pension Review

July 2025

IMPORTANT NOTICE
Please note that the following contains the opinions of the manager as of the date noted, and may not have been updated to reflect real time market developments. All opinions are subject to change without notice.

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What happened and **what it means for pension plans**

The Quarterly Pension Review provides a concise summary of recent market developments and their impact on pension plans. It is intended for both investment practitioners and those from other disciplines who are in plan governance roles. More than a market recap, we dissect data and share objective insights that will aid you in decision-making.

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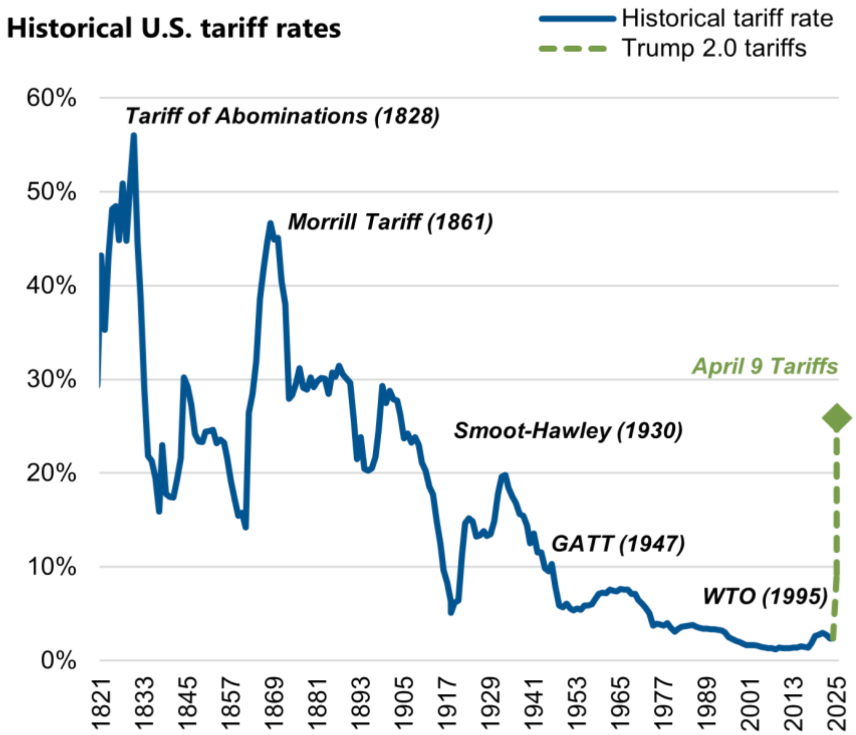
Learn More About [PIMCO's Latest Secular Outlook]

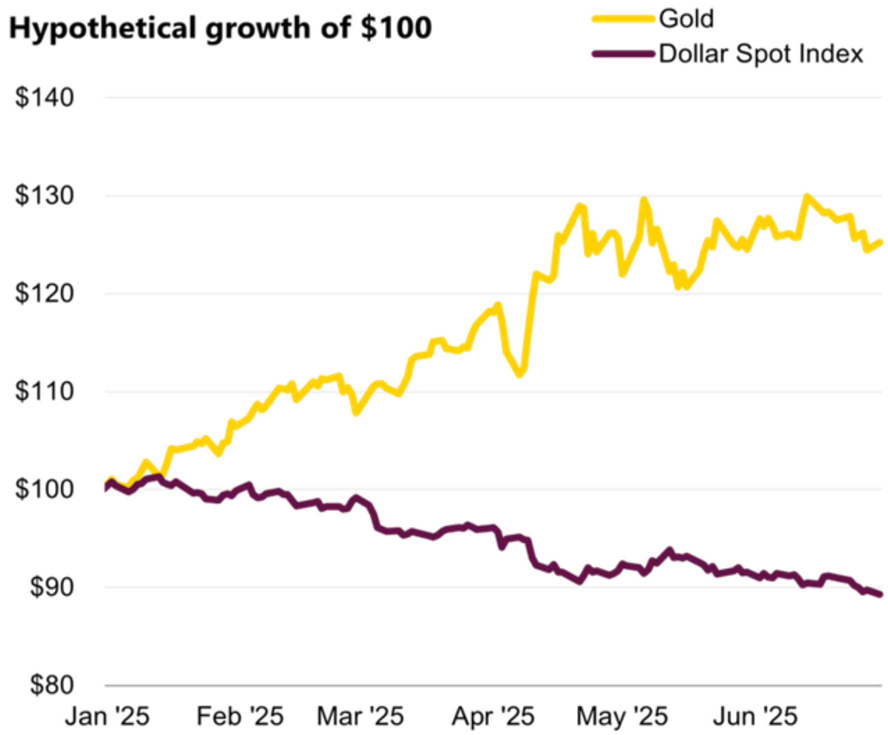
Macroeconomic Backdrop: The Fragmentation Era

The traditional world order in which economics shaped politics has been turned on its head, with politics now driving economics. Sharp policy shifts are transforming long-standing trade, security, and economic alliances, with the effects set to reverberate for years.

Throughout the quarter, markets whipsawed amid changes in U.S. trade policy, concerns over fiscal sustainability, challenges to central bank independence, and geopolitical shocks. Following broad de-escalation on these fronts, risk sentiment recovered, credit spreads tightened, and the MSCI World Index ended the quarter up 11.5%. Global monetary policy diverged as the Fed held rates steady and updated economic forecasts with stagflationary revisions. Meanwhile, the BOE and ECB continued their cutting cycles, decreasing rates 25 bps and 50 bps, respectively. In Japan, the BOJ maintained its policy rate of 0.5%, citing sustained uncertainty in its outlook.



Investors grappled with heightened policy volatility, as President Trump unveiled sweeping tariffs on global trade partners before pausing select measures for negotiations.

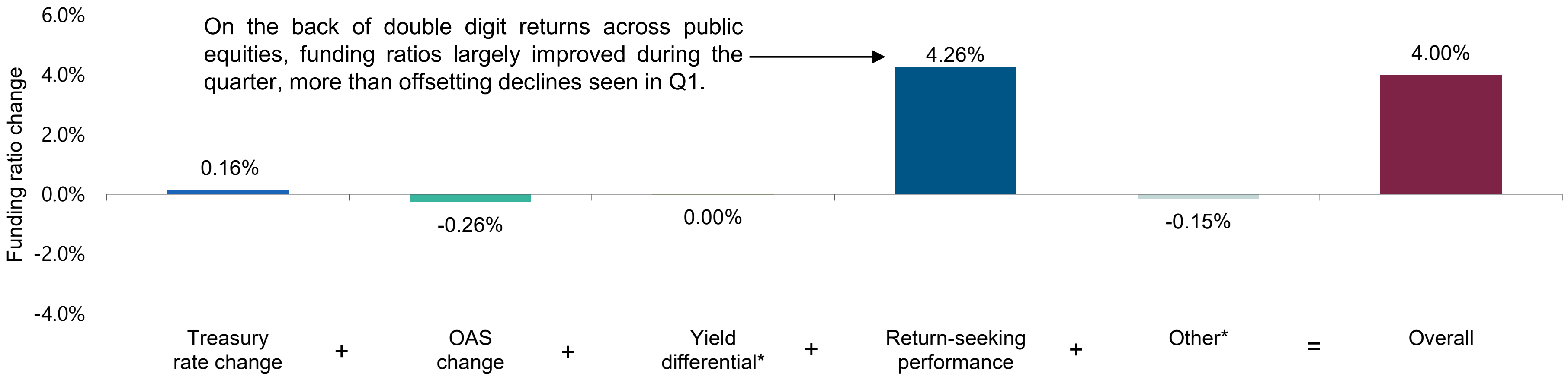


As bond and equity markets posted large intra-quarter moves, investors flocked to safe assets including gold. Notably, the U.S. dollar declined sharply in a reversal of modern trends.

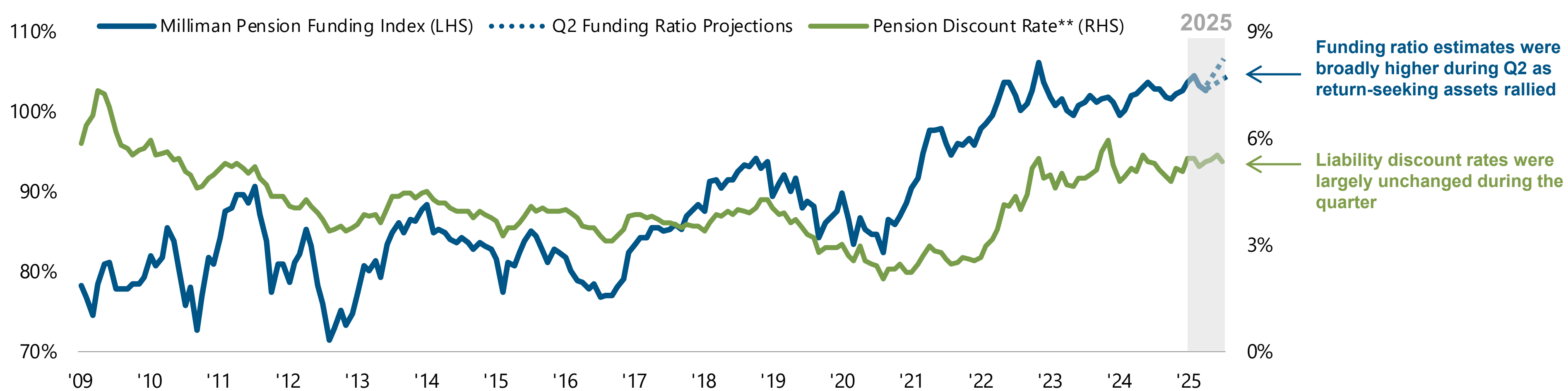
As of 30 June 2025. Source: Bloomberg, PIMCO, BBG, IMF WEO. Note: Hypothetical growth of $100 is shown for illustrative purposes only and does not represent the performance of any fund or investment product. Indices do not take into account sales charges or the effect of taxes. Results are not indicative of future performance. Refer to appendix for additional outlook information.

Return-seeking asset performance in Q2 boosts funding ratios

Q2 ’25 Funding Ratio Attribution (hypothetical pension plan with 4.0% funding ratio increase)



Pension Funding Ratio and Discount Rate



As of 30 June 2025. Source: Bloomberg, Milliman, FTSE, PIMCO.
* Yield differential refers to the yield of the fixed income portfolio compared to pension liabilities. Other refers to the residual of PIMCO’s internal attribution model for estimating the change in the hypothetical pension plan's funded status.
** Represented by the FTSE Pension Liability Index short discount rate
Refer to Appendix for additional investment strategy, outlook, and risk information.

Asset class returns through a pension lens

Liability-hedging assets

- Amid cooling inflation, weaker macroeconomic data, and U.S. policy uncertainty, the ECB and BoE cut rates by 50 and 25 bps, respectively. The U.S. Treasury yield curve steepened as near-term growth slowdown pushed short-term yields down, while fiscal concerns, exacerbated by an expansionary budget bill, drove long-term yields up.
- Credit spreads tightened over the quarter as the asset class continued to benefit from elevated yields, a supportive technical backdrop, and resilient fundamentals.

Q2 2025					
	Total Return	YTM	OAS Level (bp)	OAS Change (bp)	YTD Total Return
BBG Barclays Aggregate	1.2%	4.51%	32	-3	4.0%
Intermediate Credit	2.1%	4.59%	69	-8	4.5%
Long Credit	1.3%	5.73%	102	-15	3.7%
Long Corporate	1.2%	5.71%	100	-16	3.6%
Long Govt/Credit	-0.2%	5.25%	49	-7	3.4%
Long Treasury	-1.5%	4.80%	-	-	3.1%
20+ STRIPS	-4.6%	4.96%	-	-	0.0%

Return-seeking assets

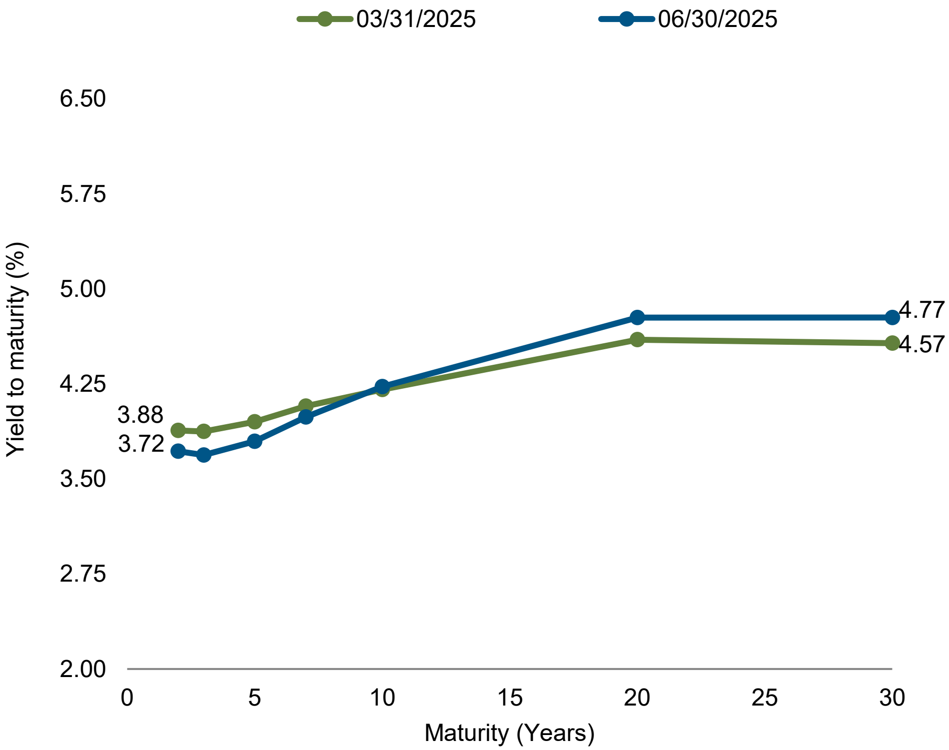
- Risk asset performance was positive in Q2'25. DM equities surged in the second quarter of 2025, given rapid shifts in market sentiment, with a strong recovery following the 90-day tariff reprieve and progress in trade negotiations. EM equities rose in the second quarter of 2025, led by standout performance in South Korea and Latin America.
- The EM asset class remained resilient amid tariff and geopolitical noise, supported by healthy growth, disciplined fiscal policy, and broad-based monetary easing.
- Global high yield bond spreads tightened over the quarter. During the quarter, the lower quality segment of the high yield market outperformed.

Q2 2025			
	Total Return	Index Level	YTD Total Return
S&P 500	10.9%	6,205	6.2%
Russell 2000	8.5%	2,175	-1.8%
MSCI World	11.6%	4,026	9.8%
MSCI ACWI	11.7%	918	10.3%
MSCI EM	12.2%	1,223	15.5%
EM External	3.1%	-	5.5%
EM Local	7.6%	-	12.3%
High Yield	3.5%	-	4.6%

As of 30 June 2025
Source: Bloomberg, Barclays
Past performance is not a guarantee or a reliable indicator of future results. See the Appendix for the indices used as the proxy for each asset class
Refer to Appendix for additional index, index proxies, OAS, outlook and risk information.

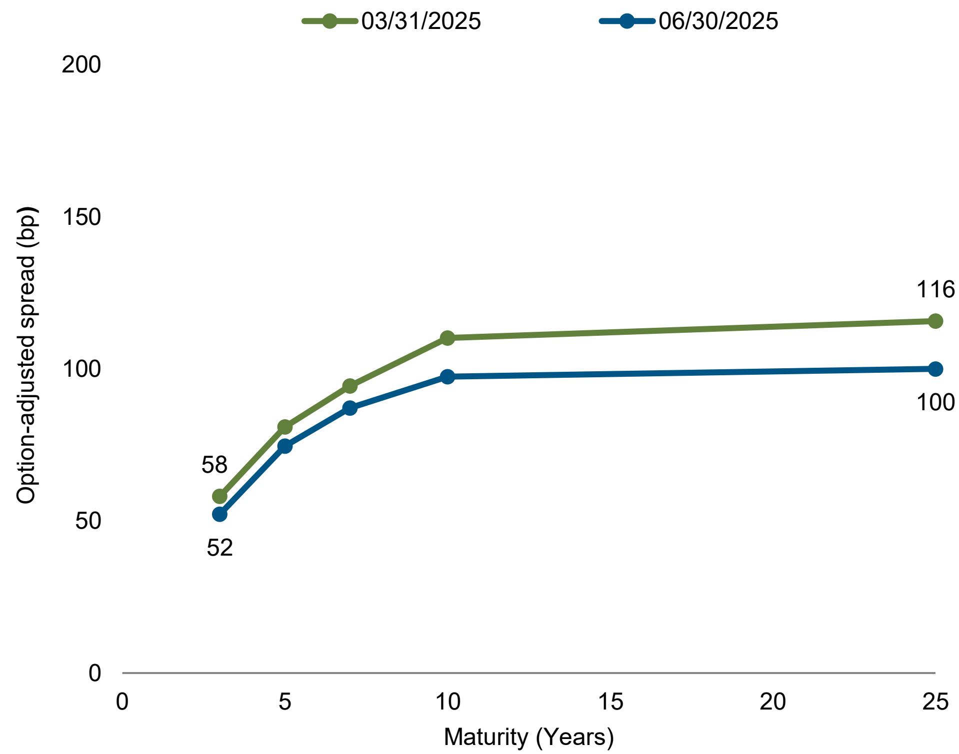
Yield curve and credit curve snapshot

U.S. Treasury Curve



In Q2, yield curve steepened as near-term growth slowdown pushed short-term yields down.

Bloomberg U.S. Corporate OAS



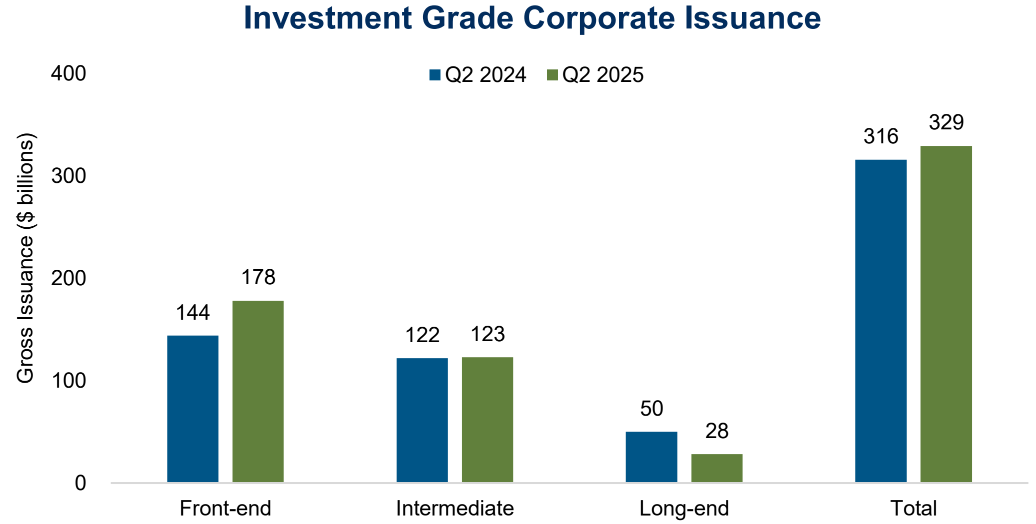
Credit spreads tightened across the curve during the quarter.

As of 30 June 2025. Source: Barclays, Bloomberg
Refer to Appendix for additional index, OAS, and risk information.

Credit markets update

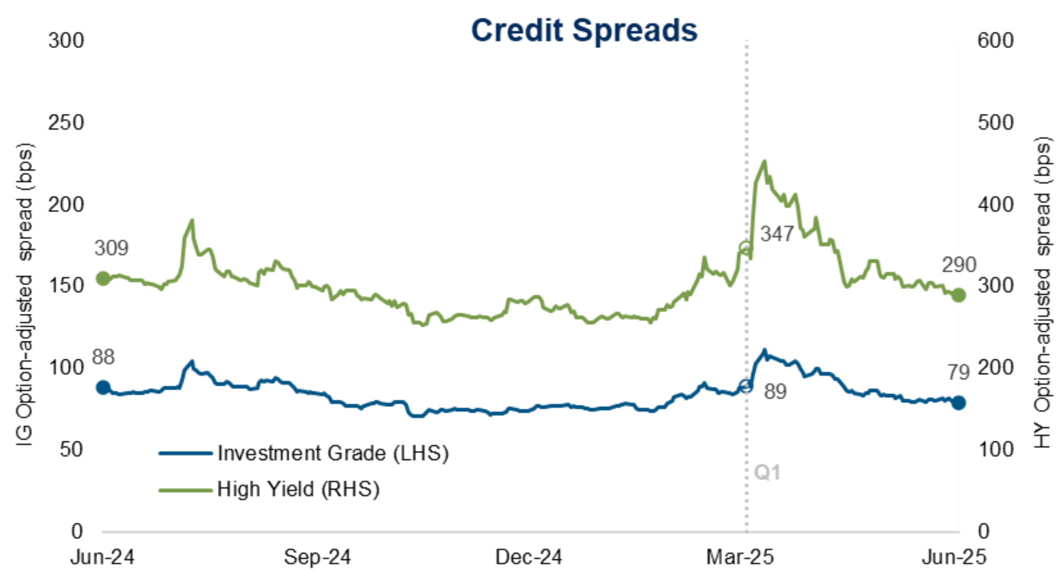
Investment Grade

- U.S. investment grade credit spreads tightened by 10 bps, ending the quarter at 79 bps. The sector returned 1.82%, outperforming like-duration treasuries by 1.00%.
- Credit spreads tightened over the quarter as the asset class continued to benefit from elevated yields, a supportive technical backdrop, and resilient fundamentals.
- Investment grade corporate gross issuance totaled $329 billion in Q2'25, lower than gross issuance in Q1'25.



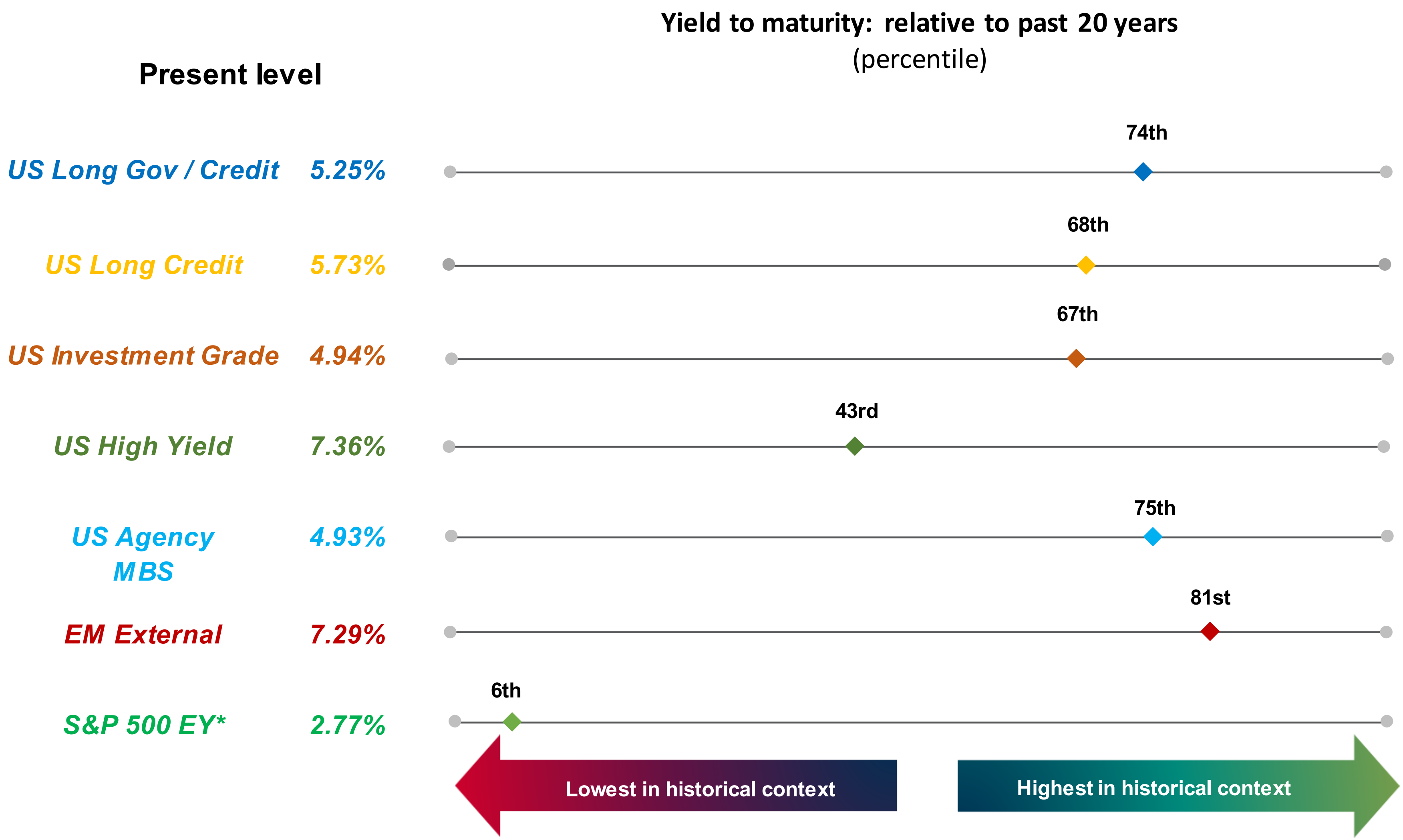
High Yield

- U.S. high yield credit returned 3.5% driven by improving technicals, solid earnings results, and declining recession risks. High yield credit spreads tightened by 57 basis points during the second quarter of 2025, ending at 290 basis points.
- In Q2'25, The lowest quality segment of the high yield market outperformed as the CCC-rated segment saw a total return of 3.69%, while the BB-rated and B-rated segments saw a total return of 3.20% and 3.34%, respectively.



As of 30 June 2025. Source: Barclays
Front-end = 1-5 year, Intermediate = 6-12 year, Long-end = 13+ year
Investment Grade spreads represented by Bloomberg U.S. Investment Grade Credit Index. High yield spreads represented by Bloomberg U.S. Corporate High Yield Index.
Refer to the Appendix for additional credit quality, index, OAS, outlook and risk information.

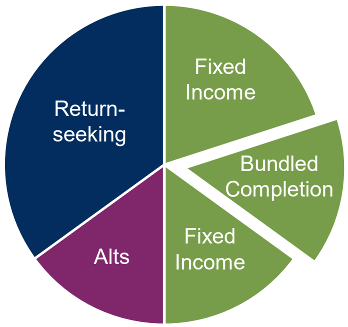
Credit markets update: putting yields in context



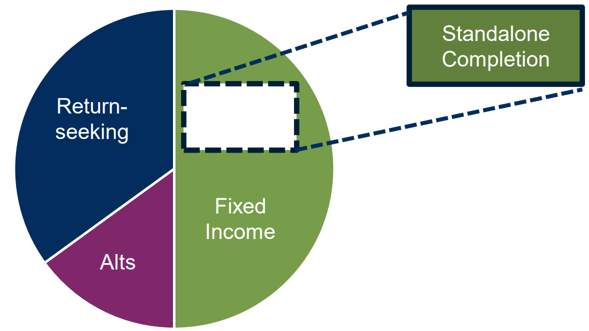
As of 30 June 2025. SOURCE: PIMCO, Bloomberg
Yields using data over last 20 years or relative to the period from index inception to as of date. US Long Gov/Credit= BBG U.S. Long Government / Credit Index, US Long Credit = BBG U.S. Long Credit Index, US IG = BBG U.S. Credit Aggregate Credit Index, US HY = BBG U.S. Corporate High Yield Index, Agency MBS=BBG U.S. Mortgage-Backed Securities Index, EM External = JPM EM Bond Index Global Yield.
*The S&P 500 EY is 10y Cyclically Adjusted Earnings Yield (1/CAPE).
Refer to appendix for additional index, investment strategy, OAS, and risk information.

Completion Management approaches – Bundled vs unbundled

Considerations



The bundled approach uses an active allocation as it's vehicle for completing the hedge



"Bundled" completion approach		"Unbundled" completion approach
✓ • **Automated / seamless rebalancing**: automatically re-sizes as markets fluctuate	**Rebalancing**	• More ad hoc/choppy rebalancing
✓ • **Lower leverage** potentially leads to less rebalancing and transactions costs	**Leverage / transaction costs / positioning**	• Tend to be highly levered mandates that may require allocation shifts to address margin needs
✓ • Adding an interest rate overlay to an active mandate **does not change excess return objectives**	**Excess return**	• Unbundled completion mandates tend to target only US Treasury exposure. Further, they are often treated as "beta" mandates with no expectation of excess return
✓ • **More flexibility to align overall credit exposure** with hedging target	**Spread hedging**	• Requires managing allocations across multiple accounts
• Typically results in larger allocation to completion manager. However, the overlay component is a significantly smaller use of the risk budget.	**Manager concentration**	✓ • May diversify manager risk with dedicated separate strategy
✓ • Can often be accommodated simply by adjusting benchmark of an existing LDI mandate	**Initial set-up ease**	• Typically requires a new dedicated mandate

As of 30 June 2025. SOURCE: PIMCO, Sample Client. **Hypothetical example for illustrative purposes only. This benchmark solution is presented for illustrative purposes only and does not constitute a PIMCO recommendation.** Allocations may not sum to totals due to rounding. NOTE: We assumed the following credit spread duration Beta adjustment factors: Corp/Credit AAA=0.6, Corp/Credit AA=0.8, Corp/Credit A=1.0, Corp/Credit BBB=1.3, FAS Accounting (AA)=0.8, Treasuries=0.0. 1 Beta adjusted. 2 Weighting factor takes into account funding ratio and manager allocation There is no guarantee that the investment objectives or the desired results of any strategy, account or portfolio will be achieved.

Refer to Appendix for additional investment strategy and risk information.

Thought Leadership

Retirement

2025 PIMCO US Defined Contribution Consulting Study
PIMCO I June 2025

Economy and Outlook

Secular Outlook: 3 Bond Myths Dispelled
Marc Seidner, Kimberly Stafford I June 2025

Secular Outlook: The Fragmentation Era
Richard Clarida, Andrew Balls, Dan Ivascyn I June 2025

Asset Allocation Outlook: Building Resilient Portfolios in a Changing Landscape
Erin Browne, Emmanuel Sharef I June 2025

Charting the Neutral Rate With Richard Clarida
Richard Clarida I June 2025

Charting Public Debt With Peter Beck-Friis
Peter Beck-Friis June 2025

Fed Policymakers: Split Decision
Allison Boxer I June 2025

Income, Resilience, and Diversification
Dan Ivascyn, Kim Stafford I June 2025

The Fed Is in a 'Good Place' – But for How Long?
Tiffany Wilding, Allison Boxer I May 2025

Key Takeaways From PIMCO's Sustainable Investing Report 2024 PIMCO I May 2025

Markets and Investments

Real Estate Outlook: Bend, Not Break: Investing in Real Estate Amid Economic Uncertainty
John Murray, Francois Trausch, Russell Gannaway, Kirill Zavodov | June 2025

Active Management Comes for Private Credit: In-Depth Investment Approaches
Jason Steiner, Jason Mandinach, Russell Gannaway | June 2025

Bank Retrenchment Creates Attractive Opportunities for Credit Investors
Christian Stracke | May 2025

Unlocking Attractive Return Potential in Asset-Based Finance
Jason Steiner I May 2025

Income Fund Update: Focus on Stability Amid Turbulence
Dan Ivascyn, Esteban Burbano I May 2025

As of July 2025. Source: PIMCO
Refer to Appendix for additional investment strategy and risk information.

Resources

Webinars and Podcasts

Income Fund Update
Dan Ivascyn, Esteban Burbano
July 2025

DCCS National Webcast,
Joseph Szalay, Vidur Mehra, Jeanetta Skorzewski | July 2025

Secular Outlook Webcast
Richard Clarida, Marc Seidner, Kim Stafford | June 2025

Mid-Year Check-In with Group CIO Dan Ivascyn Podcast
Dan Ivascyn, Gregory Hall | June 2025

Quarterly Pension Review Audiocast
Mohit Mittal, Vijendra Nambiar, Aaron Smith
May 2025

Asset-Based Finance: New Frontiers in Private Credit
Kristofer Kraus, Christian Clayton, Gregory Hall | May 2025

The PIMCO Pod - can be listened to on the following platforms - Spotify | Apple

Market and Industry Insights

View our Client Solutions & Analytics team's market dashboard.

Understanding the Defined Contribution landscape: 2025 PIMCO US Defined Contribution Consulting Study

Washington Outlook: *For regular insights on U.S. policy via email, please sign up here to receive* Washington Watch *from Libby Cantrill, Head of Public Policy.*

Macro Signposts: *For weekly insights on the global macro landscape, sign up here to receive* Macro Signposts *from Tiffany Wilding, Economist.*

Tools

PIMCO Pro: Digital Engagement Platform: Login today or register as a new user to utilize our dynamic, self-service features for your PIMCO investments.

PIMCO's OPTI Tool: Explaining the "Three T's" or Private Assets. Watch Now

As of July 2025. Source: PIMCO
Refer to Appendix for additional investment strategy and risk information.

Appendix

PERFORMANCE
Past performance is not a guarantee or a reliable indicator of future results.

CREDIT QUALITY
The credit quality of a particular security or group of securities does not ensure the stability or safety of an overall portfolio. The quality ratings of individual issues/issuers are provided to indicate the credit-worthiness of such issues/issuer and generally range from AAA, Aaa, or AAA (highest) to D, C, or D (lowest) for S&P, Moody's, and Fitch respectively.

INVESTMENT STRATEGY

There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest long-term, especially during periods of downturn in the market.

INDEX
Bloomberg Long-Term Government/Credit Index is an unmanaged index of U.S. Government or Investment Grade Credit Securities having a maturity of 10 years or more. It is not possible to invest directly in an unmanaged index.

Bloomberg U.S. Long Credit Index includes both corporate and non-corporate sectors with maturities equal to or greater than 10 years. The corporate sectors are Industrial, Utility, and Finance, which include both U.S. and non-U.S. corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government. It is not possible to invest directly in an unmanaged index.

The Bloomberg Long Corporate Index is a component of the Bloomberg U.S. Long Credit index. Bloomberg U.S. Long Credit Index is the credit component of the Bloomberg U.S. Government/Credit Index, a widely recognized index that features a blend of U.S. Treasury, government-sponsored (U.S. Agency and supranational), and corporate securities limited to a maturity of more than ten years.

Bloomberg Long-Term Treasury Index consists of U.S. Treasury issues with maturities of 10 or more years. It is not possible to invest directly in an unmanaged index.

FTSE STRIPS Index, 20+ Year Sub-Index represents a composition of outstanding Treasury Bond and Notes with a maturity of at least twenty years. The index is rebalanced each month in accordance with underlying Treasury figures and profiles provided as of the previous month- end. The included STRIPS are derived only from bonds in the FTSE U.S. Treasury Bond Index, which include coupon strips with less than one year remaining to maturity. It is not possible to invest directly in an unmanaged index.

INDEX cont'd

Bloomberg U.S. Aggregate Index represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis. It is not possible to invest directly in an unmanaged index.

S&P 500 Index is an unmanaged market index generally considered representative of the stock market as a whole. The Index focuses on the large-cap segment of the U.S. equities market. It is not possible to invest directly in an unmanaged index.

Russell 2000® Index is composed of 2,000 of the smallest companies in the Russell 3000 Index and is considered to be representative of the small cap market in general. It is not possible to invest directly in an unmanaged index.

The MSCI World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of non-U.S. developed markets. The index covers approximately 85% of the free-float adjusted market capitalization in each country. The MSCI World reflects the views and practices of the international investment community by striking a balance between a country's economic development and the accessibility of its market while preserving index stability.

The MSCI All Country World Index is a free-float adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World Index consists of 46 country indexes comprising developed and emerging market indexes.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. It is not possible to invest directly in the index.

J.P. Morgan Emerging Markets Bond Index (EMBI) Global tracks total returns for United States Dollar denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. It is not possible to invest directly in an unmanaged index.

Appendix

INDEX cont'd

JPMorgan Government Bond Index-Emerging Markets Global Diversified Index (Unhedged) is a comprehensive global local emerging markets index, and consists of regularly traded, liquid fixed-rate, domestic currency government bonds to which international investors can gain exposure. It is not possible to invest directly in an unmanaged index.

The Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded.

The Bloomberg US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

Bloomberg Long Term Government Index is an unmanaged index of U.S. Government Securities having a maturity of 10 years or more.

The Bloomberg US Intermediate Credit Index measures the performance of investment grade, US dollar-denominated, fixed-rate, taxable corporate and government-related debt with less than ten years to maturity. It is composed of a corporate and a noncorporate component that includes non-US agencies, sovereigns, supranationals and local authorities.

Bloomberg U.S. Credit Index is an unmanaged index comprised of publicly issued U.S. corporate and specified non-U.S. debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered. This index was formerly known as the Bloomberg Credit Investment Grade Index.

It is not possible to invest directly in an unmanaged index.

OAS

The option adjusted spread (OAS) measures the spread over a variety of possible interest rate paths. A security's OAS is the average earned over Treasury returns, taking multiple future interest rate scenarios into account.

OUTLOOK

Statements concerning financial market trends or portfolio strategies are based on current market conditions, which will fluctuate. There is no guarantee that these investment strategies will work under all market conditions or are appropriate for all investors and each investor should evaluate their ability to invest for the long term, especially during periods of downturn in the market. Outlook and strategies are subject to change without notice.

RISK

Investing in the **bond market** is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. Investing in **foreign denominated and/or domiciled securities** may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. **Mortgage and asset-backed securities** may be sensitive to changes in interest rates, subject to early repayment risk, and their value may fluctuate in response to the market's perception of issuer creditworthiness; while generally supported by some form of government or private guarantee there is no assurance that private guarantors will meet their obligations. **High-yield, lower-rated, securities** involve greater risk than higher-rated securities; portfolios that invest in them may be subject to greater levels of credit and liquidity risk than portfolios that do not. **Equities** may decline in value due to both real and perceived general market, economic, and industry conditions. **Derivatives** may involve certain costs and risks such as liquidity, interest rate, market, credit, management and the risk that a position could not be closed when most advantageous. Investing in derivatives could lose more than the amount invested.

Appendix

Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, CA 92660, 800-387-4626.

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